

**STATE OF NORTH DAKOTA**  
**BEFORE THE COMMISSIONER OF INSURANCE**

<b>In the Matter of the Proposed</b>	)	<b>FINDINGS OF FACT,</b>
<b>Consolidation of Steele County Farmers</b>	)	<b>CONCLUSIONS OF LAW,</b>
<b>Mutual Insurance Company and</b>	)	<b>AND RECOMMENDED ORDER</b>
<b>Farmers Mutual Insurance Company of</b>	)	
<b>Traill County Into Steele Traill County</b>	)	
<b>Mutual Insurance Company</b>	)	

Steele County Farmers Mutual Insurance Company (“Steele County”) and Farmers Mutual Insurance Company of Traill County (“Traill County”), both domestic county mutual insurance companies organized under N.D. Cent. Code Chapter 26.1-13, on or about February 2, 2005, filed a Petition seeking approval from the North Dakota Insurance Department (the “Department”) to consolidate into Steele Traill County Mutual Insurance Company, a domestic county mutual insurance company.

Pursuant to notice, a hearing as required by N.D. Cent. Code § 26.1-07-05 was convened on March 31, 2005, in the office of the Insurance Commissioner, 5<sup>th</sup> Floor, State Capitol, 600 East Boulevard Avenue, Bismarck, North Dakota.

The public hearing was held before Charles E. Johnson, Hearing Officer and General Counsel for the Insurance Department. Present and appearing at the hearing were Craig Burns, Legal Counsel for the Department; Brent Olson of the Pringle & Herigstad Law Firm of Minot, North Dakota, Legal Counsel for Steele County and Traill County; Tim Hill, Financial Analyst for the Department; Amy Johnson, Manager of Steele County; Paul Moen, President of Traill County; and Bob Olson, State Manager for Grinnell Mutual Reinsurance Company.

Oral testimony was presented at the hearing. Ms. Johnson testified on behalf of Steele County and Mr. Moen testified on behalf of Traill County. Tim Hill testified on behalf of the Department. Bob Olson, State Manager for Grinnell Mutual Reinsurance Company, testified on behalf of Grinnell Mutual. Documentary evidence was also presented by the petitioning companies, as well as the Department.

The Hearing Officer, after having reviewed the testimony presented at the hearing, exhibits presented at the hearing, and after having considered and reviewed all of the pleadings, motions, and material on file herein, hereby makes the following Findings of Fact, Conclusions of Law, and Order.

### **FINDINGS OF FACT**

#### **I**

Steele County and Traill County are both North Dakota county mutual insurance companies duly organized pursuant to N.D. Cent. Code Chapter 26.1-13.

#### **II**

Both Steele County and Traill County have Certificates of Authority in North Dakota to write fire, liability (not auto), allied lines, glass, multiple peril, and burglary and theft lines of insurance in this state. Steele County currently writes insurance in the following counties: Barnes, Cass, Eddy, Foster, Grand Forks, Griggs, Nelson, Ramsey, Ransom, Richland, Sargent, Steele, Stutsman, Traill, and Walsh. Traill County currently writes insurance in the following counties: Barnes, Cass, Eddy, Foster, Grand Forks, Griggs, Ramsey, Ransom, Steele, Stutsman, and Traill. Steele County has approximately 400 policyholders, mostly residing in Steele County, and Traill County has approximately 400 policyholders, mostly residing in Traill County.

### III

The consolidated company, Steele Traill, will transact business in Steele, Traill, Griggs, Nelson, Cass, Richland, Sargent, Barnes, Ransom, Grand Forks, Foster, Walsh, Eddy, Ramsey, and Stutsman Counties. The consolidated company will appoint all agents presently appointed by either Steele County or Traill County.

### IV

On June 12, 2004, a regular meeting of the Board of Directors of Steele County was held in Finley, North Dakota, to vote on the proposed consolidation. At this meeting, the board members of Steele County voted to approve the proposed plan of consolidation. On July 8, 2004, a regular meeting of the Board of Directors of Traill County was held in Mayville, North Dakota, to vote on the proposed consolidation. At this meeting, the board members of Traill County voted to approve the proposed plan of consolidation.

### V

On March 31, 2005, Steele County and Traill County entered into an Agreement entitled “Agreement and Plan of Consolidation of Steele County Farmers Mutual Insurance Company and Farmers Mutual Insurance Company of Traill County to Form Steele Traill County Mutual Insurance Company” (the “Agreement”). On May 11, 2005, the parties filed an Amended Agreement, providing January 1, 2006, as the effective date of the consolidation, but otherwise retaining the terms of the original agreement.

### VI

The Agreement provides that the consolidation of Steele County and Traill County shall be subject to the issuance of an Order by the Insurance Commissioner of the State of North Dakota, compliance with any Orders of the Insurance Commissioner of the State of North

Dakota, and approval by a majority of the members of each merging company present and voting at an annual meeting or special meeting of such members called to consider the adoption of this Plan of Consolidation. The effective date of the consolidation shall be January 1, 2006. The Agreement provides that all outstanding policies of insurance of each company will be converted to policies of the new company without change in any obligations to the policyholders. The Agreement also provides that as of the effective date of this consolidation, the new company shall possess all rights, privileges, powers, franchises, and property interests of each of the consolidating companies and shall be responsible for all of the obligations, including all policyholder obligations of each of the consolidating companies. The Agreement states that title to all property of each of the consolidating companies shall be vested with the new company, and further that no rights of policyholders or creditors shall be impaired by this consolidation. The Agreement further states that the Board of Directors of the new company shall consist of three directors of Steele County and four directors of Traill County as enumerated in the Agreement. Finally, the principal officers of the new company shall be elected by the new Board of Directors.

## VII

All policyholders were properly notified of the hearing relative to the consolidation through individual mailings to the policyholders and through Notice by Publication as required by N.D. Cent. Code § 26.1-07-04. The Steele County members approved the proposed consolidation at their annual meeting on March 29, 2005. The Traill County members approved the proposed consolidation at their annual meeting on April 4, 2005.

## VIII

A consolidation between Steele County and Traill County will help preserve the integrity of the county mutual system, continue the secure financial condition of the policyholders of each of the consolidating companies, spread risk of loss to a greater geographical area, and result in significant savings (an estimated \$72,000) in reinsurance costs and result in administrative savings of approximately \$25,000 to \$30,000 by reducing the number of employees from one full-time and two part-time employees to one full-time employee.

## IX

Witness Bob Olson testified that both consolidating companies have in place a reinsurance contract with Grinnell. The cost of the reinsurance varies from year to year depending on loss history. The consolidated company will have admitted assets of approximately \$1 million so that the new company can take on more risk and reduce its reinsurance costs by increasing its loss retention, thereby reducing the combined reinsurance cost by approximately \$72,000 annually. He also testified that the consolidated company's net premium to surplus ratio after the consolidation will be 0.7:1, a conservative number when compared to an industry acceptable ratio of 1:1. He testified that the new company, because of its increased size, will be stronger financially than the individual companies and that Grinnell supported the consolidation.

## X

Witness Amy Johnson testified that she will increase her hours to full time and will manage both the Finley and Mayville offices on alternating days to accommodate the policyholders of both companies. She also testified that she has automated the policy and bookkeeping functions of Steele County and that she will be able to incorporate the operations of

Trail County into Steele County's operation. She testified that the consolidation will benefit Steele County policyholders by expanding the risk area, stabilizing rates, and sharing administrative costs.

## XI

Witness Paul Moen testified that the consolidation will benefit Trail County policyholders by providing more stability and by providing additional savings on management costs. It will also allow Trail County to sell its large office and rent lesser space. He testified that the premium rates will stay stable and that the coverages from the new company will be similar to that presently available to Trail County policyholders.

## XII

Witness Tim Hill testified that in his opinion the consolidation would not materially reduce the financial security of the policyholders. He testified that overall the consolidating companies are strong companies financially and the consolidated company will remain a strong company financially. The two consolidating companies are quite similar in surplus, surplus to premium ratios, premium income, and policyholder equity. He recommended that the petition to consolidate be granted.

## XIII

A consolidation of Steele County and Trail County will not result in a reduction of coverage afforded to policyholders.

## XIV

No officer, director, or employee or family member of an officer, director, or employee will receive any compensation or gratuity, directly or indirectly, for aiding, promoting, or assisting in the consolidation.

## XV

The Agreement filed by the companies as part of their Plan of Consolidation provides that the consolidated company will be responsible for all the obligations and duties of both Steele County and Traill County. Therefore, any rights or privileges a policyholder of either consolidating company may have currently continue to exist in the consolidated company after the effective date of the consolidation.

## XVI

No objections to the consolidation were voiced by any person at the hearing.

### **CONCLUSIONS OF LAW**

1. The Commissioner of Insurance has jurisdiction over the Petition that was filed pursuant to N.D. Cent. Code Chapter 26.1-07.
2. The Petition setting forth the terms and conditions of the consolidation was properly filed under N.D. Cent. Code § 26.1-07-02.
3. The notice requirements of N.D. Cent. Code § 26.1-07-04 were met.
4. The policyholders of both companies were given the opportunity to appear before the Commissioner of Insurance to be heard as provided by N.D. Cent. Code § 26.1-07-06.
5. The proposed consolidation is equitable to the policyholders of Steele County and Traill County as required by N.D. Cent. Code § 26.1-07-05.1(1).
6. The proposed consolidation will not materially reduce the financial security of the policyholders of Steele County or Traill County as required by N.D. Cent. Code § 26.1-07-05.1(2).

7. The Commissioner has determined that no reasonable objection exists to the proposed consolidation and that the interests of Steele County and Traill County policyholders have been adequately protected as required by N.D. Cent. Code § 26.1-07-05.1.

NOW, THEREFORE, based upon the Findings of Fact and Conclusions of Law cited above, Charles E. Johnson hereby recommends to the Commissioner of Insurance that he enter an Order as follows:

**RECOMMENDED ORDER**

Pursuant to the foregoing Findings of Fact and Conclusions of Law, the Commissioner of Insurance for the State of North Dakota is satisfied that the statutory requirements outlined in N.D. Cent. Code Chapter 26.1-07, relative to the consolidation of insurance companies, and all legal requirements for that approval, have been met by the companies.

The application for the consolidation of Steele County and Traill County into Steele Traill County Mutual Insurance Company be hereby **APPROVED** contingent upon the Office of the Attorney General's approval of any and all changes to the merged companies' Articles of Incorporation and the filing of the Articles of Incorporation with the Secretary of State.

DATED this 26<sup>th</sup> day of May, 2005.

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